



**CITY OF NIXA, MISSOURI
YEAR ENDED DECEMBER 31, 2001**

**From The Office Of State Auditor
Claire McCaskill**

**Report No. 2003-13
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www.auditor.state.mo.us**

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

February 2003

The following problems were discovered as a result of an audit conducted by our office of the City of Nixa, Missouri.

The City of Nixa paid incentive awards totaling \$91,225 to various city employees during the year ending December 31, 2001 including a \$25,000 payment to the City Administrator and payments totaling \$58,900 to seven street employees. Further, the city purchased gift certificates totaling \$3,070 during 2001 for employee birthdays and performance awards.

These incentive awards and gift certificates appear to represent additional compensation for services previously rendered in the form of bonuses and, as such, are in violation of the Missouri Constitution and are contrary to an Attorney General's Opinion. While a similar condition was also noted in our prior report, the city elected to disregard the prior recommendation.

The former City Administrator resigned in October 1999; however, payments totaling \$14,469 were subsequently made over a three month period by the city to the administrator. The city indicated these payments represented severance pay. The City Administrator's contract did not provide for severance pay upon resignation.

The city did not obtain bids or retain adequate bid documentation for the following expenditures incurred in 2001 including trash hauling services (\$400,742), fuel (\$59,416), and backhoe services (\$12,711).

The city solicited and received three bids for street materials in January 2000. The bid was awarded to a contractor that agreed to provide the specified paving, concrete work, and base rock outlined in the city's bid specifications at a cost of \$328,978 during 2000. The city's bid specifications also requested the contractor to renew the bid in 2001. The city spent over \$309,000 in 2000 and an additional \$590,000 in 2001 on street paving, concrete, and base rock. Even though the scope of the street work and material costs increased significantly in 2001, the city did not rebid these materials.

Requests for proposals were not solicited in 2001 for professional services including: engineering services totaling over \$93,000, electrical engineering services of approximately \$53,000 and \$9,825 to a CPA firm for their annual independent audit.

(over)

YELLOW SHEET

Some city transactions do not appear to be a prudent and necessary use of public funds, including: paving the driveway of the former Mayor in 1999 at a cost of \$1,060 and paying \$4,000 to the Nixa Fire Protection District for the city's annual fireworks display during 2001.

Despite increased activity, the Parks Department has not established a measurement system to allow for the effective evaluation of various park activities. Also, in 2001, the Parks Department Superintendent routinely requested the City Clerk to make checks payable to cash and then would cash the checks to make purchases for the department. The Parks Department spent more than \$33,600 in cash on park activities, summer recreation, and special event items such as movies and meals. Due to inadequate documentation, it was difficult to determine the number of attendees at many of these activities to substantiate the costs incurred.

The Parks Department does not review daily collections and cash register tapes prior to transmitting the receipts to the city Finance Department. We noted the amount of receipts on the cash register tapes did not always reconcile to the amount transmitted to the city for deposit. For example on June 28, 2002, we noted apparent collections from one cash register totaling \$104 that were not transmitted to the city. This difference was not investigated, and possible missing funds went undetected due to the lack of oversight by the Parks Department. Despite these weaknesses and differences, the city responded that they would continue with their current procedures. It is disappointing and unclear why the city does not recognize the importance of implementing the necessary accounting controls in these cash receipt areas.

During the two years ending December 31, 2001, the City Clerk and the Parks Department Superintendent were paid approximately \$11,500 and \$16,900, respectively, for overtime. Approval of this overtime was not documented in accordance with the city policy.

Also included in the audit are recommendations related to other park procedures, credit cards, cellular phones, accounting procedures, budgets, personnel matters, city ordinances and board minutes, city vehicle mileage and usage logs, and the Municipal Court. Many of the findings in the audit were noted in our prior report; however, no actions were taken to implement the recommendations.

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CITY OF NIXA, MISSOURI

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STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

To the Honorable Mayor
and
Members of the Board of Aldermen
City of Nixa, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Nixa, Missouri. The city had engaged Decker and DeGood, Certified Public Accountants (CPAs), to audit the city for the year ended December 31, 2001. To minimize any duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. The scope of our audit of the city included, but was not necessarily limited to, the year ended December 31, 2001. The objectives of this audit were to:

1. Perform procedures to evaluate the petitioner's concerns.
2. Review compliance with certain legal provisions.
3. Review certain management practices.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances. In this regard, we reviewed minutes of meeting, written policies, financial records, and other pertinent documents and interviewed various personnel of the city.

Our audit was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention which would have been included in this report.

The accompany History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the city's management and was not subjected to the procedures applied in the audit of the city.

The accompanying Management Advisory Report presents our findings arising from our audit of the City of Nixa.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" and last name "McCaskill" clearly distinguishable.

Claire McCaskill
State Auditor

September 18, 2002 (field work completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Thomas J. Kremer, CPA
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MANAGEMENT ADVISORY REPORT-
STATE AUDITOR'S FINDINGS

CITY OF NIXA, MISSOURI
MANAGEMENT ADVISORY REPORT

1. Employee Compensation

- A. The city paid incentive awards totaling \$91,225 to various city employees during the year ending December 31, 2001 including a \$25,000 payment to the City Administrator and payments totaling \$58,900 to seven street employees. Further, the city purchased gift certificates totaling \$3,070 during 2001 for employee birthdays and performance awards.

These incentive awards and gift certificates appear to represent additional compensation for services previously rendered in the form of bonuses and, as such, are in violation of Article III, Section 39 of the Missouri Constitution and are contrary to Attorney General's Opinion No. 72, 1955 to Pray, which states, "...a government agency deriving its power and authority from the Constitution and laws of the state would be prohibited from granting extra compensation in the form of bonuses to public officers after the service has been rendered."

The city's residents place a fiduciary trust in their public officials to expend public funds in a necessary and prudent manner. The above expenses do not appear to represent a necessary and prudent use of public funds.

While a similar condition was also noted in our prior report, the city has elected to disregard the prior recommendation and has increased the practice of paying bonuses.

- B. The former City Administrator resigned in October 1999; however, payments totaling \$14,469 were subsequently made over a three month period by the city to the administrator. The city did not document the reason for making these payments; however, the city indicated these payments represented severance pay. The City Administrator's contract did not provide for severance pay upon resignation.

These payments were not required by the employment contract and do not appear to be a necessary use of city funds. In addition, the board should consider the necessity of including these types of payments in future employment contracts.

- C. The city has an ordinance which sets the salary of the Municipal Judge, who is an elected official, at \$10,800 per year; however, he was only paid \$8,550 during the year ending December 31, 2001 based on invoices submitted by the Municipal Judge's law firm. The city pays this salary to the Municipal Judge's law firm and does not withhold payroll taxes or report this amount on W-2 forms. Because the Municipal Judge is an elected official and his compensation is classified as a

salary, it appears that his compensation should be subject to payroll taxes and reported on W-2 forms.

A similar condition was also noted in our prior report, and the city indicated the board would address this issue as soon as possible; however, no action was taken to implement the prior recommendation.

- D. In 1999, the city paid the current City Administrator a clothing allowance of \$1,000. The administrator was not required to submit invoices or an itemized expense report to support the allowance, nor was the allowance reported on his W-2 form.

IRS Regulations 1.62-2(h) and 31.3401(a)-4(b) specifically require employee business expenses not accounted for to the employer to be considered gross income and payroll taxes to be withheld from the undocumented payments. Procedures have not been established to ensure that IRS regulations are followed. As a result, the city may be subject to penalties and/or fines for failure to report all taxable benefits.

WE RECOMMEND the Board of Alderman:

- A. Discontinue paying bonuses and providing performance awards and gift certificates to city employees.
- B. Consider the necessity of including severance payments in future employment contracts, and ensure all payments are a necessary use of city funds.
- C. Ensure the salary of the Municipal Judge is subject to payroll taxes and reported on W-2 forms.
- D. Ensure clothing allowances are included on employee W-2 forms in compliance with the IRS reporting requirements.

AUDITEE'S RESPONSE

The Board of Aldermen indicated:

- A. *The City has discontinued paying bonuses. The Board of Aldermen will determine adjustments to hourly wage during annual budget approval or as an amendment to the budget when additional assigned responsibilities exceed job title responsibilities that merit wage increases. The City's purchase of gift certificates shall discontinue. The City will continue to budget incentive awards as a management tool that will be used to award employees, when the manager can show and document that the employee's performance merits the award.*

- B. *The Board accepts the Auditor's recommendation and will consider the necessity of including severance payment in future contracts.*
- C. *The City Clerk has contacted the Municipal Judge and discussed this finding with him. As of the first of next year, we will either have a legal opinion showing how this practice can be continued, as is, under the IRS code or we will begin paying him monthly on the City's regular payroll.*
- D. *The Board will ensure that clothing allowances are included on employees' W-2 forms in compliance with IRS reporting requirements.*

2. Expenditures

- A. The city does not follow its formal bidding policy. The city's policy requires formal, written bids to be obtained for all purchases greater than \$5,000. Price quotations are required for expenditures between \$100 and \$5,000. While city employees indicated that in some instances bids were solicited through telephone quotes or other direct contacts with vendors, documentation showing vendors contacted, prices quoted, and reasons for selecting the successful vendor was not retained for some purchases. We noted the following concerns during our review:
- The city did not obtain bids or retain adequate bid documentation for the following expenditures incurred in 2001 including trash hauling services (\$400,742), fuel (\$59,416), backhoe services (\$12,711), video production services (\$3,284), and food for a coaches' banquet (\$1,391).
 - The city solicited and received three bids for street materials in January 2000. The bid was awarded to a contractor that agreed to provide the specified paving, concrete work, and base rock outlined in the city's bid specifications at a cost of \$328,978 during 2000. The city's bid specifications also requested the contractor to renew the bid in 2001. The city spent over \$309,000 in 2000 and an additional \$590,000 in 2001 on street paving, concrete, and base rock. Even though the scope of the street work and material costs increased significantly in 2001, the city did not rebid these materials. Also, a portion of the amount expended in 2001 included installation costs and materials which were not included in the original bid specifications.
 - The city paid \$22,017 in March 2002 to a local vendor for a new truck. The transaction was conducted by a salesperson who is the husband of the city employee responsible for procuring the bid. In addition, the bid accepted was not the lowest bid. Although city officials indicated the lowest bid was retracted by the vendor, there was no official

documentation from the vendor that this occurred. Also, there was not any discussion of the bid retraction in the board minutes. Due to the lack of documentation, this situation appears to represent a potential conflict of interest.

Competitive bidding helps ensure the city receives fair value by contracting with the lowest and best bidders. Bidding helps ensure all parties are given an equal opportunity to participate in the city's business. In addition, complete documentation should be maintained of all bids received. If the scope of a project changes substantially, consideration should be given to rebidding those parts of the project.

Also, if a bid other than the lowest is selected or bids are retracted, the reasons should be adequately documented. Further, discussions and decisions concerning transactions where a potential conflict of interest exists should be completely documented so that the public has assurance that no city official or employee has profited improperly.

A similar condition related to the procurement of fuel was also noted in our prior report, and the city indicated they would review the issue; however, no action was taken to implement the recommendation.

B. The city hires firms and individuals to perform various professional services. The city's purchasing policy provides detailed instructions and criteria for obtaining proposals and selecting firms or individuals to perform architectural and engineering services; however, the city does not always follow the policy. Also, the policy does not address other types of professional services. During our review, we noted requests for proposals were not solicited for the following professional services:

- The city used the same engineering firm for many construction projects. The city solicited proposals for some of the services provided by this firm; however, proposals were not obtained for engineering services totaling over \$93,000 during 2001. In addition, the city pays this firm a retainer of \$150 per month to answer any engineering questions. There were no written agreements for either of these services.
- The city does not have a written agreement with its electrical engineer and paid this engineering firm approximately \$53,000 in 2001. According to city officials, the city has utilized this firm for several years.
- The city paid \$9,825 to a firm for its annual independent audit for the year ending December 31, 2001. This firm has been used for several years and the city could not provide documentation of when proposals were last solicited for auditing services.

In addition, the city solicited proposals for architectural and engineering services for the city's community center and pool; however, the proposals accepted were not the lowest, and justification for selecting higher proposals was not documented.

Complete and detailed written policies and procedures for requesting professional services are necessary to provide guidance to employees and city officials. While professional services, such as attorneys, architects, accountants, and consultants, may not be subject to standard bidding procedures, the city should solicit proposals for professional services to the extent practical. Soliciting proposals and subjecting such services to a competitive selection process does not preclude the city from selecting the vendor or individual best suited to provide the service required. Such practices help provide a range of possible choices and allow the city to make a better-informed decision to ensure necessary services are obtained from the best-qualified vendor at the lowest and best cost. In addition, written agreements provide the framework necessary to detail the services to be provided and the compensation to be paid. In addition, complete documentation should be maintained of all proposals received. If a proposal other than the lowest is selected, the reasons should be adequately documented.

- C. City purchasing guidelines require all purchases up to \$5,000 to be approved by the applicable departmental supervisor, purchases from \$5,000 to \$10,000 to be approved by the City Administrator, and purchases greater than \$10,000 to be authorized by Board of Alderman. During our review of expenditures, we noted three purchases exceeding \$5,000 that were not authorized by the City Administrator and three purchases exceeding \$10,000 that were not approved by the Board of Alderman. For example, engineering services totaling \$9,039 were only approved by the departmental supervisor, and backhoe services totaling \$12,711 were only approved by the City Administrator.

All purchases should be approved in accordance with city policy.

- D. We noted some city transactions which do not appear to be a prudent and necessary use of public funds. These include:
- As part of one of the city's street improvement projects, the city paved the driveway of the former Mayor in 1999 at a cost of \$1,060; however, there was no documentation in the minutes that this was approved by the board. According to city officials, this was the most cost effective alternative for the street project.

The city's residents have placed a fiduciary trust in their city officials to expend public funds in a necessary and prudent manner. To avoid the appearance of conflicts of interest, all transactions and agreements with

city officials should be fully documented and approved by the Board of Aldermen.

A similar condition regarding conflict of interest was also noted in our prior report, and the city indicated the board would review the conflict of interest issue; however, no actions were taken to implement the prior recommendation.

- The city paid \$4,000 to the Nixa Fire Protection District for the city's annual fireworks display during 2001. The city did not obtain documentation from the fire district regarding the actual costs and benefits of the fireworks display. Additionally, this expense may not represent a necessary and prudent use of public funds.

If the annual expenditure for fireworks is determined to be a desirable, city-provided service, the city should obtain a written contractual agreement which specifies services to be provided and provides the city with a mechanism to evaluate and monitor such services.

- E. The city owns 52 vehicles and numerous pieces of heavy equipment, such as dump trucks, backhoes, loaders, and bucket trucks. Except for the police department vehicles, the city does not maintain daily mileage or usage logs for city vehicles and equipment.

Mileage or usage logs are necessary to support fuel and maintenance expenses and allow the city to evaluate the cost efficiency of each vehicle and piece of equipment. Logs should be maintained indicating the employee using the vehicle or equipment, the purpose and destination of the trip, and the beginning and ending odometer readings or hours used as applicable. These logs should be reviewed by applicable supervisors to help ensure there is no inappropriate personal use of the city's vehicles or equipment and verify the propriety of fuel billings and maintenance.

A similar condition was also noted in our prior report, and the city indicated the board would review the issue; however, no actions were taken to implement the prior recommendation.

WE RECOMMEND the Board of Alderman:

- A. Ensure bids are solicited for all applicable purchases in accordance with city policy. Documentation of the bidding process should be maintained in all cases. If the city feels that it is not practical to obtain bids on certain purchases, documentation explaining why bids were not obtained should be maintained. If substantial changes are made to the scope of a project, consideration should be given to rebidding those parts of the project. In addition, discussions and

decisions concerning transactions where a potential conflict of interest exists should be completely documented.

- B. Develop written policies and procedures for the selection and procurement of companies and individuals for various types of professional services. In addition, the city should solicit proposals for professional services to the extent practical and prepare written contracts to formalize these agreements.
- C. Ensure all expenditures are authorized in accordance with city policy.
- D. Ensure expenditures from city monies are a prudent use of public funds and are limited to those necessary to properly operate the city. In addition, avoid transactions that represent actual conflicts of interest or the appearance of conflicts of interest. Also, if the annual fireworks display is determined to be a necessary city expense, the city should obtain a written agreement.
- E. Require mileage or usage logs be maintained for all city vehicles and equipment, and require periodic reviews of the logs by applicable supervisors.

AUDITEE'S RESPONSE

The Board of Aldermen indicated:

- A. *The City commits to following its adopted purchasing policies. The City recognizes that there must exist at all times adequate documentation to track and confirm the reasons for decisions being made. The City's policy shall be revised to allow the City Administrator to award bids that exceed \$10,000 when the Board has approved the budget authorizing this expenditure and when the bid amount is less than or equal to the approved budget amount. There may be instances that deserve consideration of this methodology in the future, when it is apparent that due to economic situations prices may dramatically fluctuate. The City's policy will be revised to recognize this practice for commodities that are price sensitive. The City will do its utmost to assure that its personnel are protected from any potential conflict of interest, to the extent of completely removing the employee from the assigned responsibility of administering the bid process.*
- B. *The City recognizes the benefit of bid solicitation to determine cost savings. The City will initiate preparation and introduction of a revised policy to the Board for consideration to select and procure consultants and individuals for various types of professional services. In addition the City will solicit proposals for professional services to the extent possible and prepare written contracts to formalize these arrangements. Selection will be measured not only on cost savings but experience and quality of anticipated product.*
- C. *The City's policy shall be revised to allow the City Administrator to award bids after Board approval of the budgeted amount when the bid is equal to or less than the authorized amount.*

- D. *The City will formally obtain or provide documentation of all transactions.*
- E. *The City will initiate immediately the recording of mileage and use logs of all City vehicles and equipment. Each manager will be responsible for collection, compilation and periodic monitoring of these records to verify appropriate employee use of all vehicles and equipment.*

3. Park Procedures

- A. The Parks Department expends funds on various activities such as summer sports and recreation, abstinence education, and after school childcare programs, and only covers a portion of these costs from revenues generated from activity fees. Although the city intends to subsidize the parks programs, the city has not established a measurement system to periodically evaluate the results of the various park programs offered. Further, park activities have increased significantly over the last several years resulting in increased subsidies from the city's General Fund. For example, during the three years ending December 31, 2000, the General Fund transferred an annual average of \$240,000 to the Parks Department to subsidize park activities and the subsidy increased to \$275,000 during the year ending December 31, 2001. In 2002, park expenditures were budgeted to be \$1.4 million, while revenues generated from these activities were budgeted to be \$1 million requiring the city to transfer approximately \$435,000 to subsidize the Park Fund. Due to the increased activity and subsidies provided, it is essential the city monitor these activities. A measurement system would allow for the effective evaluation of parks department programs.
- B. In 2001, the Parks Department Superintendent routinely requested the City Clerk to make checks payable to cash and then would cash the checks to make purchases for the department. The Parks Department spent more than \$33,600 in cash on park activities, summer recreation, and special event items such as movies and meals. The only documentation for several of these expenditures were rediform receipt slips which did not contain the vendors' names. Further, due to inadequate documentation, it was difficult to determine the number of attendees at many of these activities to substantiate the costs incurred.

To help ensure the propriety of all park expenditures, all disbursements should be made by check whenever possible. If a petty cash fund is needed for small or emergency purchases, it should be maintained on an imprest basis and written guidelines should be adopted for the use of petty cash. In addition, an accurate listing of attendees should be maintained to substantiate the costs incurred.

A similar condition was also noted in our prior report, and the city indicated the board would attempt to find a better resolution to this issue; however, very little action was taken to implement the prior recommendation.

- C. The Parks Department processed approximately \$826,000 in receipts between January 1, 2002 and October 31, 2002. Department employees, many of which are seasonal employees, enter activity fees received into eight cash registers located at the community center, pool, and ball fields. Each cash register generates a detailed tape which shows the activity fees collected. The detailed tapes along with the monies received are transmitted to the Finance Department for deposit into the city's bank account.

The Parks Department does not review daily collections and cash register tapes prior to transmitting the receipts to the Finance Department. We noted the amount of receipts on the cash register tapes did not always reconcile to the amount transmitted to the city for deposit. In a few cases, hand written notations of the differences were made on the register tape; however, explanations for the differences were not documented. For example on June 28, 2002, we noted apparent collections from one cash register totaling \$104 that were not transmitted to the city. This difference was not investigated, and possible missing funds went undetected due to the lack of oversight by the Parks Department.

In addition, we noted instances where monies were withheld from official park receipts by the Parks Department Superintendent to purchase lunch for department employees.

To ensure proper accountability over official receipts and reduce the potential for loss, theft, or misuse of funds, monies received should be reconciled to cash register tapes and transmitted to the city intact. Any differences should be investigated and resolved.

- D. Registration and enrollment fees were not always consistently charged to participants of the various park activities in accordance with the department's written program booklet. In addition, although the Parks Department does not have a written policy for employee discounts, various city employees received discounts to various Parks Department events. Our review noted the following concerns:

- Parks Department employees were not always required to pay the established enrollment fees for their child's participation in the 2001 Summer It Up program. For example, we calculated the cost of participation for one employee's children to be approximately \$1,065 based on class enrollment information; however, this employee was only required to pay \$611. According to the Parks Department Superintendent, the amount paid by the employee was less than our calculation because

Parks Department employees were given a discount; however, this same discount was not given to other city employees. Further, other city employees were required to pay for a child's participation in advance of the activity while Parks Department employees were allowed to pay at the employee's discretion. For example, the Summer It Up program ended in August 2001, but the employee discussed above paid \$258 in December 2001, for her children's participation.

- In February 2001 the department sponsored a summer trip to a St. Louis Cardinals baseball game. The department purchased 48 tickets to the baseball game and only had 25 individuals that paid to participate in the event. The price to participate in the event was \$23 per person, and seven of the tickets were sold at a discounted rate of \$10. The Parks Department Superintendent indicated an additional four tickets were given to a Parks Department employee, and the remaining tickets were unused; however, the unused tickets were not retained.
- During our review of the spring 2002 little league registration, we noted some individuals, who registered after the required deadline, were required to pay a \$5 late registration fee while others were not. The Parks Department did not maintain documentation to support why some individuals were not charged the late fee.

To ensure registration and enrollment fees are collected, and participants and employees receive equitable treatment, fees should be collected in accordance with the established policies. Any exceptions should be documented and approved by a supervisor. In addition, unused tickets should be accounted for properly.

A similar condition was also noted in our prior report, and the city agreed that fee schedules should be followed; however, no action was taken to implement the prior recommendation.

- E. During our review of the Park's Department Abstinence Education program, we noted some expenditures which did not appear to be a prudent and necessary use of public funds. These include:

- The city paid \$12,918 to a firm for speaking engagements in 2001 for a professional abstinence education speaker who spoke at Nixa schools. In addition, the city did not solicit proposals for these services.
- The city paid \$5,502 for an abstinence education banquet held at the Big Cedar Lodge in Branson, Missouri. In addition to meeting equipment rental fees, 120 meals were provided at a cost of approximately \$42 per person for students graduating from the program, their parents, and parks

department employees involved with the program. Also, the city did not solicit bids for the banquet expense.

These expenditures appear to be an excessive use of public resources. The city should ensure funds are spent on items which are necessary to meet the critical needs of the city. In addition, if the expenditures are determined to be a desirable, city-provided service, the city should solicit proposals or bids in accordance with city policy.

WE RECOMMEND the Board of Alderman:

- A. Establish a measurement system to periodically evaluate the income and costs of various park activities.
- B. Ensure all disbursements for the Parks Department are made by check, and establish procedures to track attendees for the various park activities.
- C. Transmit all receipts intact daily. The Parks Department should reconcile cash register receipt tapes to the amount transmitted to the city for deposit and promptly investigate any differences.
- D. Ensure the Parks Department charges and collects registration and enrollment fees and any exceptions should be fully documented and approved by a supervisor. If necessary, a written policy should be developed to provide guidance for employee discounts. In addition, procedures should be developed to account for unused tickets.
- E. Ensure abstinence education funds are only spent on items which are necessary to meet the critical needs of the city. In addition, if the expenditures are determined to be a desirable, city-provided service, the city should solicit proposals or bids in accordance with city policy.

AUDITEE'S RESPONSE

The Board of Aldermen indicated:

- A. *In January of 2002, prior to the audit, procedures were put in place to address these issues. With the increased activities created by the construction of McCauley Park, these procedures were introduced during the summer of 2002 and will be fully implemented by the first of January 2003.*
- B. *In January of 2002, prior to the audit, all use of petty cash for programs was discontinued. Some vendors set up charge accounts for the activities and for those who do accommodate charge accounts, a credit card was obtained for program use only and*

possession of the card and charges to the card was controlled by the finance department only.

- C. The City will continue current process.*
- D. A formal written procedure for all charges and collection of registration and enrollment fees shall be followed. City employees are not eligible for fee waivers or discounts, except Safe Base employees' children. Any exception to this prohibition, whether employee or citizen, shall be documented by the Park Manager as to what constituted the exception and why and the City Administrator, or his appointee, will be informed on a weekly basis.*
- E. When administering grant awards, City personnel shall follow City purchasing policies and practices.*

AUDITOR'S COMMENTS

- C. It is disappointing and unclear why standard accounting practices can not be implemented for the handling of park funds. The Board has a fiduciary responsibility to ensure park funds are properly handled.

4. Credit Cards

The city has eight credit cards used primarily for city-related travel expenses. The city spent approximately \$14,000 on various expenses during the year ended December 31, 2001. Our review noted the following:

- Although, the city has adopted a formal policy on credit card usage, the policy does not define levels of purchase authorization or approval requirements for various purchases. In addition, the policy does not establish limits that may be charged by employees or establish requirements for submitting itemized receipts. For example, the City Clerk and the Parks Department Superintendent charged \$1,350 and \$930, respectively, for training and meeting registration fees during the year ending December 31, 2001 without obtaining prior authorization.
- Adequate supporting documentation was not always submitted or retained for charges totaling \$4,189 during the year ending December 31, 2001. For example, supporting documentation was not retained for airline tickets costing \$669, and in other instances, the only documentation available was a signed charge slip.
- Numerous meal expenses incurred within the city were charged to the city's credit cards. The purpose and need to incur meal expenses within the city limits were not regularly documented, and the city does not have a policy to address expenses incurred locally.

- Rental car expenses incurred by the Parks Department employees to attend training activities were also charged to the city's credit card. While the Parks Department Superintendent indicated she compared the cost of renting a car to the cost of paying personal mileage, documentation of this comparison was not retained. Further, the city paid \$222 for a car rental and fuel for 532 miles of travel. We calculated the cost of paying personal mileage to an employee for this trip to be \$165, resulting in \$57 that could have been saved by the city.

Complete and detailed written credit card policies and procedures are necessary to provide guidance to employees. Adequate supporting documentation should be retained for all credit card purchases and reconciled to credit card statements to ensure the propriety of the charges. Without adequate supporting documentation, the city cannot evaluate the necessity and reasonableness of credit card purchases. In addition, the city should review the need for reimbursing meal expenses incurred within the Nixa city limits. If the city determines that reimbursing local meal expenses is a necessary, business-related cost of the city, guidelines should be established defining those expenses eligible for reimbursement. Further, the city should review the practice of renting vehicles versus paying mileage to employees to evaluate the most cost effective practice.

WE RECOMMEND the Board of Alderman review and consider revising the city's policy regarding credit card usage. In addition, the board should ensure adequate supporting documentation is submitted for all credit card purchases and reconciled to credit card statements to ensure the propriety of the charges. Also, the board should determine if reimbursing local meal costs is necessary and if the practice of renting vehicles is cost effective.

AUDITEE'S RESPONSE

The Board of Aldermen indicated they will review and revise the City's credit card use policy. Such policy shall include levels of purchase authorization, approval requirements and establish limits that may be charged with submittal, in all instances, of an itemized receipt for the transaction. The policy shall include authorization for employees who attend meetings on behalf of the City to use assigned credit card with retention and submittal of all itemized receipts. The City will continue to evaluate the most cost effective way to handle travel for training; however, the City of Nixa shall not require its employees to use their own personal vehicle in the performance of their work related responsibilities if the employee objects to this request.

5.	Cellular Phones
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The city does not have a formal policy regarding cellular phone usage or guidelines to determine whether a cellular phone is needed or of benefit to the city. Monthly cellular phone expenses are approximately \$1,100 for the city's 36 cellular phones. Although cellular bills are reviewed by the City Administrator's assistant, our review of the cellular phone bills for one month noted a few calls which appeared to be personal in nature. For

example, during our review of the August 2002 cellular phone bill, we noted one employee that made nine out-of-state calls to family members. The city was not reimbursed for the cost of any personal calls noted. While the additional charges noted were not significant, it does not appear city funds should be used to pay for personal telephone usage.

While cellular phones can help increase employee productivity, they are also costly. A policy is needed to ensure that cellular phones are used only for business purposes. Such a policy should address which employees need a cellular phone, proper use of the phone, and a reimbursement policy if the board authorizes the phone to be used for personal purposes. Effective procedures should be implemented to monitor cellular phone usage and review invoices for propriety.

WE RECOMMEND the Board of Alderman develop a policy regarding the use of cellular phones including an assessment of which employees need a cellular phone and procedures to monitor their use.

AUDITEE'S RESPONSE

The Board of Aldermen indicated the City will prepare for adoption a formal cell phone policy. The City recognizes the benefits cellular phones provide with emphasis on business related activities; however, accessibility to family is also important to us. Long distance personal phone calls are to be prohibited.

6. Accounting Procedures

A. During our review of the city's delinquent accounts and meter deposits we noted the following concerns:

- Adequate efforts have not been made to pursue the collection of delinquent accounts. At December 31, 2001, the city had over \$176,000 in utility accounts receivable which have been delinquent for at least one year, with \$49,076 of this amount being deemed inactive and dating back at least to 1995. According to city officials, delinquent accounts are not routinely turned over to a collection agency.
- Meter deposits are not always reviewed in conjunction with a customer's final billing. Inactive meter deposits totaling \$20,320 at December 31, 2001 should be reviewed and applied to delinquent customer accounts or refunded as applicable.

To help maximize utility revenues, the city should develop adequate procedures for the handling of delinquent utility accounts. This should include a periodic review of delinquent accounts and appropriate action being taken to pursue amounts owed. In addition, the city should consider writing off those accounts

that are considered uncollectable, after proper review and approval. Also, inactive meter deposits should be reviewed and applied to delinquent customer accounts or refunded as applicable.

- B. The City Clerk and the Mayor are authorized to sign checks. The city's checking accounts require two signatures for all disbursements. The City Clerk has custody of a facsimile stamp of the Mayor's signature and uses the stamp to sign checks. In addition, neither checks nor a detailed listing of expenditures is reviewed by the Mayor or the board.

Allowing the City Clerk to use the facsimile stamp diminishes the control intended by multiple signatures. In addition, failure to compare checks issued and actual invoices to the expenditure reports results in a lack of internal controls over disbursements. To reduce the risk of unauthorized disbursements, the board should review a detailed listing of expenditures.

- C. The method of payments received (cash, check, money order, etc.) is not always recorded, and employees routinely cash personal checks from city receipts. In addition, checks and money orders are not always restrictively endorsed until the deposit is prepared.

To ensure receipts are accounted for properly and deposited intact, the method of payments received should be recorded on all receipt slips or receipt logs, the composition of recorded receipts should be reconciled to the composition of bank deposits, and personal checks should not be cashed with official city receipts. In addition, to reduce the potential for loss, theft, or misuse of funds, checks and money orders should be restrictively endorsed immediately upon receipt.

A similar condition was also noted in our prior report, and the city indicated the board would review this issue; however, no action was taken to implement the prior recommendation.

- D. The Finance Department prepares monthly bank reconciliations; however, it has not established procedures to routinely follow up on outstanding checks. At December 31, 2001, city checks totaling \$9,647 had been outstanding for more than one year. Many of these checks had been outstanding for over five years.

Procedures should be established to routinely investigate any checks remaining outstanding over a specified period of time. Old outstanding checks should be voided and reissued to those payees who can be readily located. If the payees cannot be located, amounts should be paid out in accordance with applicable state laws.

- E. During 2001, the city transferred \$532,082 to the General Fund from the Water (\$164,559), Sewer (\$114,579), Electric (\$186,387) and Street (\$66,557) Funds to

cover salary and building lease expenditures paid from the General Fund. City officials indicated the salary costs were divided among the funds based upon percentages obtained from time studies performed approximately ten years ago. Building lease costs are allocated based on city hall floor space utilized by the utility and street departments; however, the city did not have documentation of the actual floor space utilized by each department.

It is essential the city properly allocate expenses to the various funds. This information is needed for the city to properly establish the user charges for its utilities. Furthermore, the uses of certain funds, such as the Street Fund, are limited by state law or city ordinance for specified purposes. Therefore, documentation of expense allocation is useful for both management and compliance purposes. Documentation should be retained to support the percentages used for allocating expenditures.

A similar condition was also noted in our prior report, and the city indicated the board would review this issue; however, no action was taken to implement the prior recommendation.

WE RECOMMEND the Board of Alderman:

- A. Ensure adequate procedures are established for the handling of delinquent utility accounts. This should include a periodic review of delinquent accounts and appropriate action being taken to pursue amounts owed. In addition, meter deposits should immediately be applied to customer accounts upon final billing.
- B. Discontinue the practice of allowing the City Clerk to use the facsimile signature stamp and require another board member to sign all checks. In addition, the board should compare checks issued to invoices and expenditure reports.
- C. Indicate the method of payment, reconcile the composition of receipts to the composition of deposits, and discontinue the practice of cashing personal checks from receipts. In addition, restrictively endorse checks and money orders immediately upon receipt.
- D. Investigate old outstanding checks and reissue them if the payees can be located. If the payees cannot be located, the monies should be disposed of in accordance with applicable state laws. Procedures to routinely investigate checks that remain outstanding over a specified period of time should be established.
- E. Ensure all expenditures allocated to the various funds are reasonable and are supported by adequate documentation.

AUDITEE'S RESPONSE

The Board of Aldermen indicated:

- A. *During 2001, the City initiated the process to apply the outstanding deposits to accounts of people who moved out owing more than they had in deposits to cover the bill. A billing was sent to them with the deposit applied, but the adjustment to segregate these deposits from current deposits in the general ledger had not been done; however, the separation was done on the computer accounting records. This has not been a priority and has been worked on as time permitted. The project was completed in October 2002.*
- B. *With the appropriate dual controls that are currently in place and practiced, the Mayor's stamp will no longer be used and Coralee Patrick is authorized to sign all checks except her own payroll check that will be signed by the Mayor or the Mayor Pro-tem.*
- C. *The City will continue to handle all deposits in the same manner as we have been doing.*
- D. *This task is in process and will be completed prior to 12-31-03, and if not completed it will be reported to the Board of Aldermen.*
- E. *The City will schedule a time study for 2003 and its findings shall establish 2004 Budget figures.*

7.	Payroll and Personnel Matters
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- A. The city's personnel policy requires any overtime worked to be scheduled and approved in advance by the employee's supervisor or designee. During the two years ending December 31, 2001, the City Clerk and the Parks Department Superintendent were paid approximately \$11,500 and \$16,900, respectively, for overtime. Approval of this overtime was not documented in accordance with the city policy.

The city should follow its overtime policy to ensure equitable treatment of all employees. Any exceptions to the policy should be approved by the Board of Aldermen.

- B. The city is not consistently following its vacation leave accumulation policy. The policy requires employee's to use vacation leave in the year earned or obtain approval from their supervisor to carry leave forward if leave is not taken. Some employees were allowed to carry unused vacation leave forward, and documentation of the approvals was not maintained. Also, some employees had negative vacation leave balances at December 31, 2001.

The city should follow its leave accumulation policy to ensure equitable treatment for all employees. In addition, to ensure employees receive leave benefits only as allowed by the city's policy, employees should not be allowed to carry negative

leave balances. Any exceptions to the policy should be approved by the Board of Aldermen.

- C. The city's personnel policy provides for reimbursement of tuition expenses. To qualify for reimbursement, the employee is required to obtain supervisory approval prior to registering for a class. The city does not retain documentation of the supervisory approval/disapproval for the tuition reimbursements.

To help ensure employees are treated fairly and equitably, the city should require documentation of tuition reimbursement approvals/disapprovals to be maintained.

WE RECOMMEND the Board of Alderman:

- A. Document approval for all overtime in accordance with the city's policy.
- B. Ensure the city's leave policy is consistently followed and discontinue the practice of allowing negative leave balances. In addition, any exceptions to the policy should be approved by the Board of Aldermen.
- C. Establish procedures to document the supervisory approval/disapproval for tuition reimbursements.

AUDITEE'S RESPONSE

The Board of Aldermen indicated:

- A. *The City will adopt a formal process for approval of overtime use and payment.*
- B. *The City will revise its leave policy to allow all employees to carryover vacation leave to the next year as long as the amount does not exceed the amount earned in one-year.*
- C. *A form to comply with this request will be prepared and used.*

8. Budgetary and Financial Reporting

- A. Historically, the city has amended its budget by formal resolution after year-end to ensure expenditures do not exceed the budget. Budget amendments are discussed by the board throughout the year; however, the city does not formally amend the budget until after the year-end. For example, the 2001 budget was amended by over \$3.4 million to reflect increased expenditures made during the year.

Section 67.040, RSMo 2000, allows for budget increases, but only after the governing body officially adopts a resolution setting forth the facts and reasons.

Section 67.080, RSMo 2000, provides that no expenditure of public monies shall be made unless it is authorized in the budget. The city should formally amend the budget before it incurs the expenditures.

- B. The city publishes semi-annual financial statements; however, the statements did not include the indebtedness of the city in accordance with Section 79.160, RSMo 2000. The city's published financial statements did not report over \$19 million in outstanding revenue bonds and \$1.7 million in capital lease obligations at December 31, 2001. To better inform the citizens of the city's financial position and to ensure compliance with state law, the published financial statements should include all significant indebtedness of the city.

Similar conditions were also noted in our prior report, and the city indicated the board would amend the budget prior to incurring expenditures and would take actions to correct the oversight related to items omitted from their financial statement; however, no action was taken to implement the prior recommendation.

WE RECOMMEND the Board of Alderman:

- A. Ensure budget amendments are made prior to incurring the actual expenditures and ensure the reasons for the amendments are documented as required by state law.
- B. Ensure the published financial statements include the indebtedness of the city as required by state law.

AUDITEE'S RESPONSE

The Board of Aldermen indicated:

- A. *The City will accompany all potential budget amendments with an ordinance that complies with statutory requirements. When a budget amendment occurs prior to introduction of an ordinance, an ordinance shall be submitted to the Board at their next regularly scheduled public meeting.*
- B. *The City will ensure that published financial statements include the indebtedness of the City as required by State law.*

9. City Ordinances and Board Minutes

- A. The city has not adopted ordinances establishing the salaries and terms of office of some city officials and employees, including the City Administrator, City Clerk, and Police Chief, as required by Section 79.270, RSMo 2000. To ensure compliance with state law and to avoid misunderstandings, the board should adopt

ordinances which specify the terms of office and compensation of all city officials and employees.

A similar condition was also noted in our prior report, and the city indicated the board would review this issue as soon as possible; however, no action was taken to implement the prior recommendation.

- B. Board minutes are prepared and signed by the City Clerk; however, they are not signed by the Mayor. The board minutes should be signed by the Mayor upon approval to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the board meetings.

A similar condition was also noted in our prior report, and the city indicated the board would request the Mayor sign the minutes; however, no action was taken to implement the prior recommendation.

- C. Decisions made in closed meetings were not always subsequently disclosed in open meeting minutes as required. For example, we noted salary increases and allowances being discussed and approved by the board in closed session, but were not disclosed in the board's open meeting minutes.

Section 610.021, RSMo 2000, allows the board to close meetings to the extent the meetings relate to certain specified subjects, including litigation, real estate transactions, and personnel issues; however, that statute requires certain matters discussed in closed meetings to be made public upon final disposition.

- D. According to city ordinance Article III, Section 2-55, "No person shall be sworn into office who shall at the time be in arrears for any unpaid city taxes or municipal user fees." In April 2001, Alderman Hayes was sworn in to office even though his February utility bill remained unpaid. While the delinquent charges noted were not significant, it does not appear the city properly enforced the ordinance.

- E. The city has not formally established a policy regarding access to city records. The City Clerk, who serves as the official custodian of city records, has established some informal guidelines for accessing the records; however, these rules have not been documented and officially adopted by the Board of Aldermen.

Section 610.023, RSMo 2000, indicates that each public governmental body is to appoint a custodian who is to be responsible for the maintenance of that body's records and establishes guidelines for making city records available to the public. To ensure compliance with state law, the city should adopt formal policies regarding the location of city records, the persons responsible for maintaining each record, and procedures for citizens to request access to public records and how the city will handle these requests. Written policies would establish

procedures for the residents to follow and the cost for the requested information. In addition, written policies would help avoid misunderstandings regarding the availability of public city records.

WE RECOMMEND the Board of Alderman:

- A. Establish by ordinance the salaries and pay rates of all officials and employees.
- B. Ensure board minutes are signed by the Mayor to attest to their accuracy.
- C. Ensure decisions reached in closed meetings are subsequently disclosed to the public as provided by state law.
- D. Ensure city ordinances are properly enforced.
- E. Develop written policies regarding procedures to obtain access to, or copies of, public city records.

AUDITEE'S RESPONSE

The Board of Aldermen indicated:

- A. *The City will establish by ordinance the salaries and pay rates of all officials and employees and establish by ordinance the appointment of the City Administrator, City Clerk and Police Chief, whose terms shall remain open until removed by a majority vote of the Board of Aldermen.*
- B. *The City will provide a signature line on the minutes for the mayor's signature.*
- C. *The City will ensure that decisions reached in closed meetings are subsequently disclosed to the public as provided by State law.*
- D. *The City will follow its adopted ordinance.*
- E. *The City will adopt a formal policy outlining the Auditor's concerns.*

10. Municipal Court

- A. The court processed approximately \$185,000 in receipts during 2001. Our review noted the following concerns related to receipts:
 - 1. The method of payments received (cash, check, money order, etc.) is not always recorded. To ensure receipts are accounted for properly and deposited intact, the method of payments received should be recorded on

all receipt slips and the composition of receipt slips should be reconciled to the composition of bank deposits.

2. Fines and court costs are not deposited on a timely basis. Receipts were deposited approximately once or twice a week. To adequately safeguard receipts and reduce the risk of loss, theft, or misuse of funds, deposits should be made daily or when accumulated receipts exceed \$100.
3. Receipts are not always deposited intact. The court routinely cashes bond refund checks. To ensure all receipts are accounted for properly, receipts should be deposited intact, applied to fines and court costs, and any applicable refunds should be made by check.

Similar conditions were also noted in our prior report, and the city indicated the board would review the issues with the municipal judge; however, no action was taken to implement the prior recommendations.

- B. The court allows defendants to make partial payments on fines and court costs. As a result, municipal division records indicate accounts receivable totaled approximately \$36,000 at July 31, 2001, and over \$26,000 of this balance represented cases over one year old. Some of these accounts had been outstanding for over ten years. The court should consider writing off any accounts receivables which are deemed to be uncollectable. All delinquent accounts should be reviewed and those which are deemed to be uncollectable should be written off after review and approval by the Municipal Judge.
- C. The municipal division has not implemented adequate procedures to follow up on bonds held for over one year. As of December 31, 2001, the municipal division was holding bond receipts totaling approximately \$3,800 which have been held in excess of one year.

An attempt should be made to determine the proper disposition of these monies. A review should be made of any bonds posted by persons who failed to make the required court appearance to determine if the bonds should be forfeited and monies paid over to the city treasury as provided by Section 479.210, RSMo 2000. For those bonds which relate to closed cases, Sections 447.500 through 447.595, RSMo 2000, which relate to unclaimed property, should be used to disburse these monies.

- D. The court prepares monthly bank reconciliations; however, it has not established procedures to routinely follow up on outstanding checks. At December 31, 2001, checks totaling \$1,547 had been outstanding more than one year. Some of these checks had been outstanding for over five years.

Procedures should be established to routinely investigate any checks remaining outstanding over a specified period of time. Old outstanding checks should be voided and reissued to those payees who can be readily located. If the payees cannot be located, amounts should be paid out in accordance with applicable state laws.

WE RECOMMEND the city of Nixa Municipal Division:

- A.1. Indicate the method of payment on all receipt slips issued and reconcile total cash, checks, and money orders received to bank deposits.
2. Deposit receipts daily or when accumulated receipts exceed \$100.
3. Deposit receipts intact and discontinue making refunds in cash.
- B. Review and assess amounts due to the court for collectibility. Uncollectable accounts receivable should be written off following review and approval by the Municipal Judge.
- C. Follow up on all bonds held for more than one year, and dispose of bonds in accordance with state law. In addition, procedures should be established to routinely follow up on cash bonds remaining on hand over a specified period of time.
- D. Investigate old outstanding checks and reissue them if the payees can be located. If the payees cannot be located, the monies should be disposed of in accordance with applicable state laws. In addition, procedures to routinely investigate checks that remain outstanding over a specified period of time should be established.

AUDITEE'S RESPONSE

The Board of Aldermen indicated:

A&B. The Court will continue its current procedures.

C. The Court will go through the outstanding bonds and if any are found that can be sent to the State Unclaimed Property, we will present them to the Judge for his authorization.

D. The Court has already started working the outstanding checks in the Court system. The very old checks total \$425 and there is probably another \$500 that we will recommend be sent to Unclaimed Property.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

CITY OF NIXA, MISSOURI
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The city of Nixa is located in Christian County. The village was incorporated in 1946 as a fourth-class city. The population of the city in 2000 was 12,124.

The city government consists of a mayor and six-member board of alderman. The six board members are elected for two-year terms. The mayor is elected for two years and presides over the board of alderman and only votes in case of a tie. The Mayor, Board of Alderman, and other principal officials at December 31, 2001, were:

<u>Elected Officials</u>	<u>Term Expires</u>	<u>Compensation Paid for the Year Ended December 31, 2001</u>	<u>Amount of Bond</u>
Jay Wasson, Mayor (1)	April, 2002	\$ 2,400	\$
Tom Maher, Alderman (2)	April, 2002	480	
Bill Ellis, Alderman	April, 2003	480	
Tracy Haist, Alderman	April, 2003	360	
Brian Hayes, Alderman	April, 2003	480	
Doug Marrs, Alderman (3)	April, 2002	480	
Steve Tallaksen, Alderman (4)	April, 2002	480	
 George M. Johnson, Municipal Judge	 April 2002	 8,550	
 <u>Other Principal Officials</u>			
Brian Bingle, City Administrator		91,037 (5)	90,000
Coralee Patrick, City Clerk		52,040	90,000
Patrick Sweeney, City Attorney and Prosecutor		42,017	
Bruce Belin, Police Chief		42,977	
Shawna Flannery, Parks Director		43,061	
Richard Hill, Water Quality Superintendent		44,906	
Pat Hall, Electric Superintendent		54,006	
John Patrick, Street Superintendent		59,779	

- (1) Doug Marrs was elected as Mayor in April 2002.
- (2) Replaced by Steve Faseler in April 2002.
- (3) Replaced by Tom Maher in April 2002.
- (4) Replaced by Randy Howerton in April 2002.
- (5) Includes \$3,025 for vehicle allowance.

Assessed valuations and tax rates for 2001 were as follows:

ASSESSED VALUATION

Real estate	\$	89,990,800
Personal Property		24,317,687
Railroad and utilities		<u>345,468</u>
Total	\$	<u><u>114,653,955</u></u>

TAX RATES PER \$100 ASSESSED VALUATION

General Fund	\$.3735
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The city does not levy taxes on personal property.

The city also has the following sales tax; the rate is per \$1 of retail sales:

	Rate	Expiration Date
General	\$ 0.010	None
Transportation	0.005	None

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